California COMMISSION for ECONOMIC DEVELOPMENT

Tourism & Entertainment Advisory Committee Meeting

Thursday, October 30, 2008
12:00 p.m. – 2:00 p.m.
Creative Artists Agency
2000 Avenue of the Stars
Los Angeles, CA 90068

MEETING SUMMARY

INTRODUCTION

Lieutenant Governor John Garamendi welcomed the committee members and provided a brief overview of the Commission for Economic Development and the advisory committees. He summarized the CED's recent activities, pointing out the type of impact on policy the advisory committees can make.

The Lieutenant Governor introduced CED Executive Director Richard Baum and committee chair and CED commissioner Dr. Demos Vardiabasis. Dr. Vardiabasis explained the agenda for the meeting. He stated that tourism would not be the focus of this meeting, but he emphasized that in California, entertainment and tourism go hand in hand and that this relationship should be kept in mind throughout the course of the meeting and in all future proceedings.

PRESENTATION

The Lt. Governor invited committee members Lisa Rawlins (representing Warner Brothers studios) and Chris Essel (Universal Pictures) to make a presentation on the most important issues facing the entertainment industry in California. According to Ms. Essel and Ms. Rawlins, it has been very difficult to successfully pass legislation that would provide financial assistance for the TV and film production industry. They noted that it is expensive to run production companies, and those in charge want to generate the most possible film and TV productions for the best price. In order to keep the entertainment industry in California as a vital part of our economy, tax incentives appear to be necessary. The growing concern is that production companies will leave California to find better deals, less expensive production costs and more tax incentives. This concern is legitimate, as the past few decades have seen a growing percentage of the entertainment industry looking outside of California to do business. The mid 1980s saw a trend emerge known as "runaway production", in which production companies began to pull out of California and head for more tax-friendly states such as Florida and Texas. Then, during the 1990s, countries such as Canada and France began offering tax incentives to the production industry to lure business to their countries; these attempts seem to have worked. Warner Brothers, for example, shoots its biggest feature films in the U.K. or in Australia due to tax incentives and tax breaks not offered in California.

In short, there is too much money and revenue at stake for California to let the entertainment industry slip away.

According to Ms. Essel and Ms. Rawlins, the state government needs to take action to ensure that this does not happen. The political climate in California, with its extreme partisanship and mounting budget issues, has not been conducive to support the production industry, particularly with respect to obtaining any form of lasting tax incentives. The news media has been very negative about any type of subsidies for the entertainment industry. This has led to increased pessimism on the part of the legislature, and has made it more difficult to make any progress in terms of a legislative solution. It is not true that all production companies have “deep pockets” and are only trying to profit even more than they normally do, but these biases are difficult to overcome. The speakers emphasized the need to focus on the jobs created by the entertainment industry, and the impact of local spending on the state’s economy. The speakers noted that this may be a tactic to encourage lawmakers to work toward compromise in approving legislation that would provide incentives for the industry, thus encouraging job retention and growth in California. Film and TV production impacts many areas of California, not just Los Angeles. This is a message to take to the legislators.

Ms. Rawlins and Ms. Essel stated that California has never had a tax incentive for the entertainment and production industries; this has been a contributing factor to companies leaving California. According to the speakers, a major hindrance to the implementation of a tax incentive for the production industry is the absence of an accurate and reliable return on investment model for the state. For three years in the early 1990s, California did have a rebate program called Film California First. This program provided for reimbursement of up to $300,000 to television and film production companies for the use of public utilities such as fire, police, and public property. Unfortunately, this program was eliminated from the state budget, but it showed how California could benefit economically from the entertainment industry. For California to pass legislation granting tax incentives to the production industry, it will be necessary to obtain exact, concrete, and reliable figures on the industry and its significance to California’s economy.

The speakers provided a number of statistics that underscored the important role the production industry plays in the California economy. The production industry is right behind the agriculture industry with respect to providing jobs in the state; it spends $42 billion in California, half on salaries and the other half on vendors, and is responsible for directly creating 250,000 jobs and generating between $150-200,000 a day from average daily costs for feature films. This activity adds up, considering that there are 150-200 feature films created every year. These statistics are good estimates, though concrete figures are difficult to obtain due to the absence of reliable statistical tracking in the industry. Many companies are secretive with their budgets and as a result, do not produce reliable figures. Though many companies are slow to share their numbers, they do feel that they should be compensated for keeping production in California. The latest legislative bill to be passed affecting the production industry put a cap on how much a company could get back from the state for a California produced feature film. This set number did not appeal to production companies.

The main focus of the entertainment industry in California is to keep feature film production in California, even if it means losing some television shows to other states. Technology is making it easier and cheaper for shows and movies to be shot in all types of locations with the added benefit of filming on location due to cost efficiency. It doesn’t stop there; many production companies are shooting films abroad and are also incorporating the pre and post-production processes into the foreign markets as well. An example of this is found in Michigan, where a major production company has moved due to the tax incentives offered there. This move, along with 94 shows being lined up for filming in Michigan, show how much potential revenue the state is losing.

POST PRESENTATION DISCUSSION

The Lieutenant Governor followed up the presentation with a few comments and suggestions. He said that a possible way for information on the production industry to be obtained is through tax reports, employment statistics, the Board of Equalization and possibly through the Franchise Tax Board. He also summarized the presentation, stating that the main issues the industry faces are bias, standardization and the unavailability of completed data numbers. The state needs an economic analysis of the industry in order to fully understand its trends and its effect on the entire California economy. Possible ways of getting such an analysis might be by employing some of the surrounding schools, like the School of Economics at UCLA, to do research. There are also economic development groups out there who would be interested in studies like these. Also, the Lieutenant Governor cited the need for ongoing discussion about the state of the industry as well as a discussion about what other states are doing in the entertainment sector. We in California need to look to answer the following questions: What incentives are necessary to keep production in California? How do we bring production companies back to California? What are our incentives for getting these companies back?

A discussion regarding possible proposals and further questions followed the Lieutenant Governor's summary. A major question to be answered is what jobs/revenues would be created by tax incentives for the production industry? Also, if California does do something in the form of tax incentives, would it be enough to lure these companies back? A possible solution is for unions and production companies to pull together to fund a comprehensive study on the industry and its effects on California. It was suggested that the USC Film School or business school could conduct such a study. It was also suggested that to create more jobs the production business needs to involve parts of California other than just Los Angeles. California could be divided into 5 empowerment zones as a way to approach this issue in a more organized manner, particularly since economic development is increasingly happening on regional rather than a statewide basis within California. There is already a foundation for this, with 55 local film commissions in place throughout the state.

CONCLUSION

The meeting concluded with a discussion of tax incentives and what, if anything, they would cost the state. Canada has labor tax credits in place and so do some states, including New Mexico. Instead of using tax incentives, New Mexico offers interest free loans; a company is given $20 million for a movie, and the company does not have to pay the state back for 4 years, a process that is backed by private equity firms. Other states implement other practices; for instance some allow a 40% tax credit to the production industry (e.g. a $50 million film would deliver $20 million back to the company in some form or another). The general consensus is that no matter what is method is used (credits, rebates, or subsidies), it will end up costing the state some money. The question remains, is it worth it? Incentives such as grants do not work because they are not permanent. The state's solutions must be permanent and also must be tax-based to ensure the existence of the incentives in the future. The ultimate goal is to make Los Angeles, and the rest of California, look economically appealing to production companies. By keeping actors and industry workers in the area and close to their homes, we would be keeping jobs in California while also ensuring that a great source of revenue continues to flow through our economic system.

The Lt. Governor requested a list of available business and investment incentives for film production. The Enterprise Zone program was mentioned as a possible incentive that can be used by production companies. Lisa Rawlins noted that Warner Brothers used the EZ program when filming *Matrix 2* in Oakland. The Employment Training Panel also has funding available to offset training costs. He indicated that there may be some funding available for a comprehensive study of the economic impact of the film/TV production industry in California. The Lt. Governor suggested that one of the universities, perhaps USC, UCLA or Pepperdine, could conduct such a study.

The committee members discussed options for a legislative solution and what kind of bill language would be useful. Rick Baum offered to work with Leslie Tamminen and Lisa Rawlins on this.

The Lt. Governor said that the new legislative session would start in December, with new members, and that any proposal from the committee would be in play in the winter or spring of 2009.

Follow-up items: Leslie Tamminen will develop a regional outreach plan, working with Rick Baum and Michele Gault. The committee and staff will look at currently existing economic incentives. The committee will look into commissioning a study of the industry.

Meeting adjourned at 2:05 p.m.